

# Municipal Utility Budget/Finance Best Practices

Kitsap – Olympic Local Government  
Infrastructure Academy

# in·ter·ac·tive

: designed to respond to the actions, commands, etc., of a user

: requiring people to talk with each other or do things together



**Don't be that guy!**



**Give  
Me back  
my  
Money!  
NOW!!!!**



# Priority Based Budgeting



Microsoft Office  
Excel Worksheet

Program  
Costing



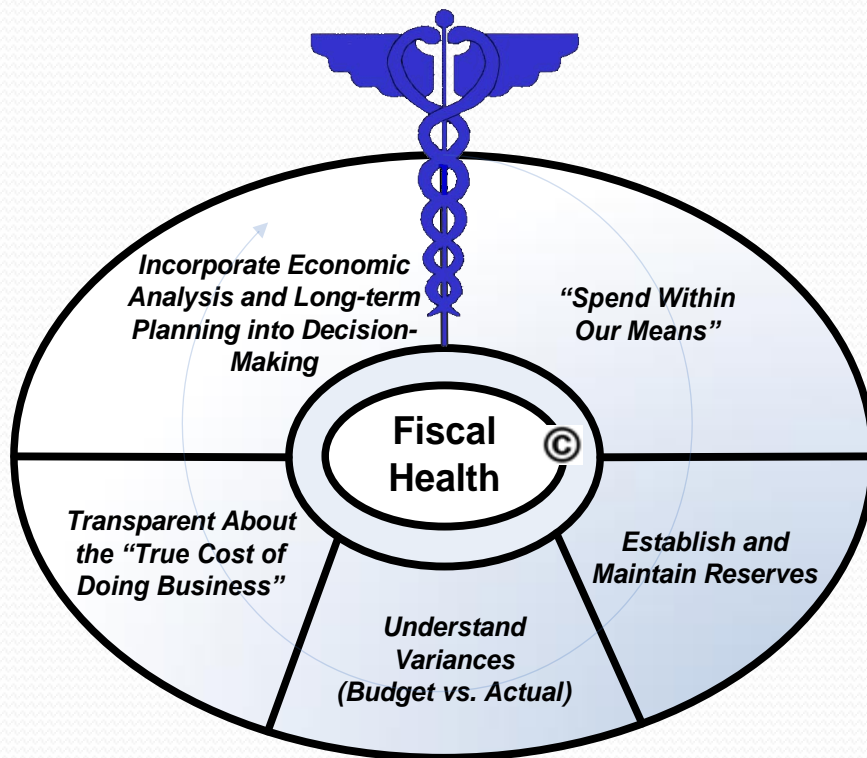
Adobe Acrobat  
Document

Division  
Specific  
Program  
Costing

# Achieving Fiscal Health & Wellness ©

## 2 Strategic Initiatives

### *Fiscal Health*



### *Long-term Fiscal Wellness*







# City of Bainbridge Island, Washington

## GOOD GOVERNANCE

Protects, manages, optimizes and invests in its financial, human, physical and technology resources

Develops sustainable fiscal and operational polices and fosters trust and transparency by ensuring accountability, efficiency, integrity, innovation and best practices in all operations

Supports decision-making with timely and accurate short-term and long-range analysis that enhances vision and planning

Provides assurance of regulatory and policy compliance to minimize and mitigate risk

Provides responsive and accessible leadership and facilitates timely and effective two-way communication and input with all stakeholders

Attracts, motivates, develops and retains a high-quality, engaged and productive workforce





# City of Bainbridge Island, Washington

## RELIABLE INFRASTRUCTURE and CONNECTED MOBILITY

Provides safe, integrated, convenient and connected travel options for pedestrians, cyclists and motorists to easily get around

Plans for the long-term maintenance, repair and replacement of roads

Designs, constructs and proactively maintains a reliable utility infrastructure that delivers safe, clean water, controls storm water drainage and effectively manages sewage treatment

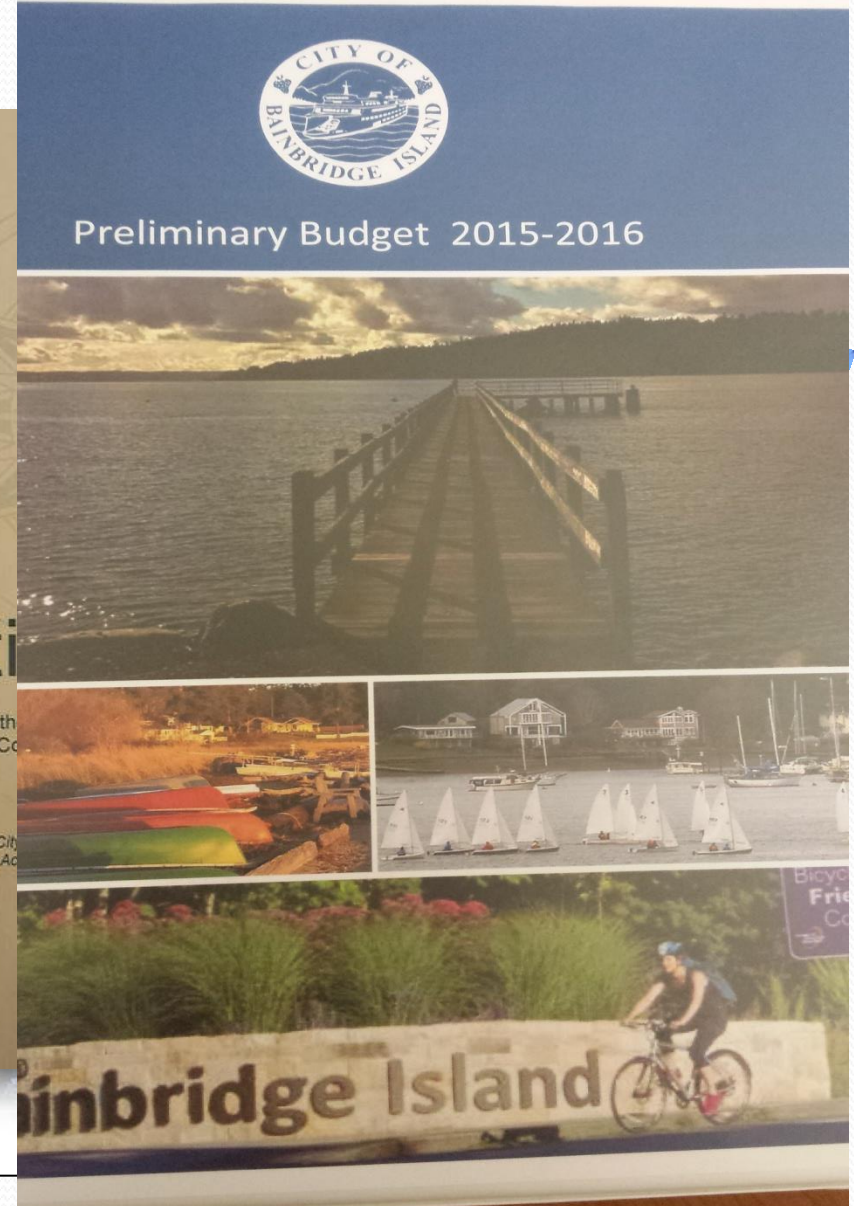
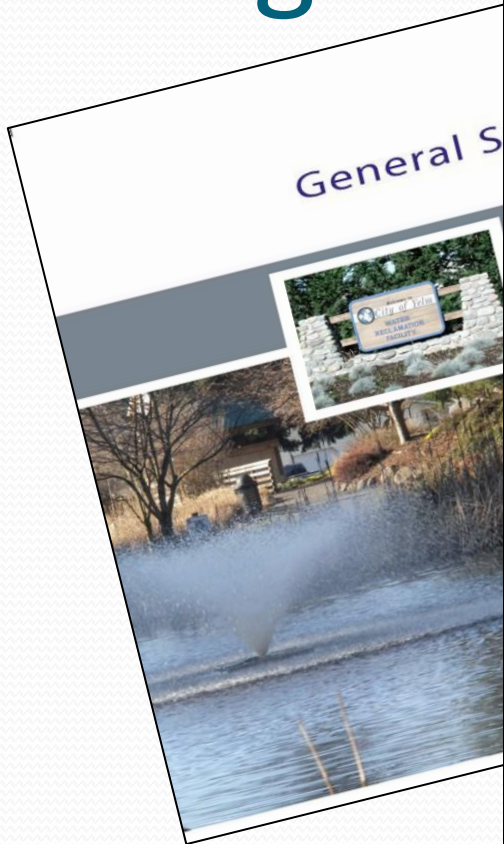
Keeps citizens connected and informed, providing a reliable communications network and leveraging opportunities to provide information to citizens through community activities

Partners with others in the community to regionally plan, cooperatively prepare and collaboratively invest in properly regulated, sustainable development

Plans, designs and maintains functional public facilities and parking



# Building Your Budget



# Best Practices Criteria Used by Bond Rating Agency

- **Fund balance reserve policy/working capital reserves**
- **Multi-Year financial forecasting**
- **Quarterly financial reporting & monitoring**
- *Contingency planning policies*
- *Policies regarding nonrecurring revenue*
- *Depreciation of general fixed assets*
- **Debt affordability reviews & policies**
- **Pay as you go capital funding policies**
- **Rapid debt retirement policies of more than 65% in 10 years**
- *Five year capital improvement plan integrating operating costs*
- *Financial reporting award (GFOA)*
- *Budgeting award (GFOA)*

# Financial Viability

- Review historical performance
- Current performance
- Policies
- Competitive with surrounding utilities



# Significant Rating Concerns

- Cash accounting basis
- Qualified audit opinion for material weaknesses
- Deficit financing for two of last five years
- Slow debt retirement (less than 35% in 10 years)
- Unfunded accrued pension liability
- Over reliance on non-recurring revenue
- Aggressive investment policy for operation funds
- Pension contribution deferral in the current budget year
- Lack of capital improvement plan
- Excess interfund borrowing, with no capacity to repay in near future

Sewer Fund 412	2008	2009	2010	2011	2012	2013
<b>Beginning Net Cash and Investments</b>	\$ 5,941,000	\$ 4,559,284	\$ 3,794,814	\$ 3,619,359	\$ 3,653,852	\$ 3,704,000
<b>Revenue</b>						
Fees & Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Fines & Forfeits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for Utility Services	\$ 968,443	\$ 1,092,200	\$ 1,119,505	\$ 1,147,493	\$ 1,176,180	\$ 1,205,584
Miscellaneous	\$ 37,100	\$ 138,000	\$ 78,200	\$ 46,357	\$ 48,591	\$ 64,589
Assessments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Investment Revenue	\$ 13,840	\$ 28,000	\$ 27,460	\$ 31,275	\$ 32,450	\$ 34,260
Gain on Sale of Fixed Assets	\$ -	\$ -	\$ -	\$ 2,468	\$ -	\$ -
<b>Total Revenue</b>	\$ 1,019,383	\$ 1,258,200	\$ 1,225,165	\$ 1,227,593	\$ 1,257,221	\$ 1,304,433
<b>Gross Revenue</b>	\$ 5,941,000	\$ 5,817,484	\$ 5,019,979	\$ 4,846,952	\$ 4,911,073	\$ 5,008,433
<b>Expenditures</b>						
Operating Costs	\$ 1,112,716	\$ 1,096,670	\$ 1,113,120	\$ 1,040,850	\$ 1,061,667	\$ 1,167,834
Capital Equipment	\$ 115,000	\$ 10,000	\$ 12,500	\$ 28,250	\$ 25,750	\$ 43,500
Capital Projects	\$ 154,000	\$ 916,000	\$ 275,000	\$ 124,000	\$ 142,000	\$ 157,000
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Non-operating Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Expenditures and Other Uses</b>	\$ 1,381,716	\$ 2,022,670	\$ 1,400,620	\$ 1,193,100	\$ 1,229,417	\$ 1,368,334
<b>Excess (Deficit) of Resources Over Uses</b>	\$ 4,559,284	\$ 3,794,814	\$ 3,619,359	\$ 3,653,852	\$ 3,681,656	\$ 3,640,100
<b>Ending Net Cash and Investments</b>	\$ 4,559,284	\$ 3,794,814	\$ 3,619,359	\$ 3,653,852	\$ 3,681,656	\$ 3,640,100



# Determining Revenue Requirements

- Cash Basis
  - Utility Revenue Requirements defined on cash outflows and debt service
  - Sum of the following is the Revenue Requirement of the utility
    - Operation and Maintenance Expense
    - Debt Service Payments
    - Normalized Capital Improvements

# Cash Basis

- Advantages

- Understood by City Council & Public
- Attempts to match cash inflows and outflows on a yearly basis

- Disadvantages

- Conceals major rate problems and revenue deficiencies
- Tends to result in unexpected and large rate adjustments

# Determining Revenue Requirements

- Utility Basis
  - Utility Revenue Requirements defined similar to accrual accounting concepts:
    - Operation and Maintenance Expense
    - Depreciation Expense
    - Rate of Return
      - Interest Expense
      - Inflation

# Utility Basis

- Advantages

- Leads to more stable and consistent rate adjustments
- Typically leads to a more financially stable and healthy Utility

- Disadvantages

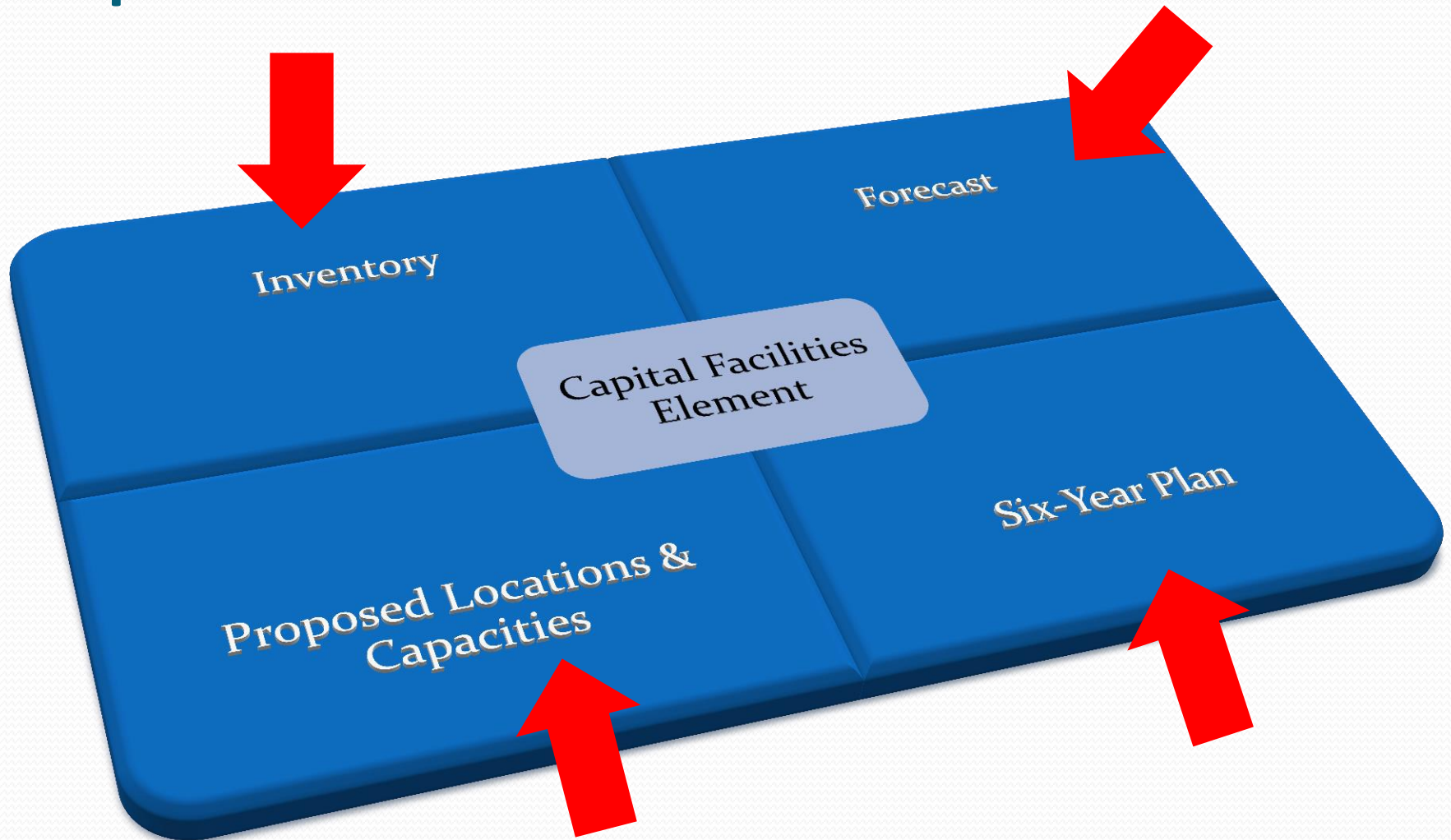
- City Councils and Public may not understand
- Have to justify cash reserves
- Explain funding non-cash expenses
  - Depreciation
- Explain importance of rate of return



# Growth & Development

- If we build it – they will come
  - Corollary – if they come, we will have to build it
- Does this question influence your system plans and comprehensive plan?

# Capital Facilities Element





# Ideas

- Integrate your capital budgeting into the requirements for a CFP
  - Some cities have a CFP and operating capital
    - Difference is dollar threshold, or life of the asset, or related to a required element of CFP
  - The CFP theory provided for in GMA is a good approach for capital project planning
    - Focuses objectively on identified need – not wish list
    - Political priorities need to be included as well

# Ideas

- Follow traditional budget building approach:
  - Obtain policy parameters first
    - Comprehensive Plan will provide much policy guidance – therefore it is important to track it
    - Include other goals of the city/council
  - Maintain an inventory of existing facilities including level of service capacities
    - Level of Service (LOS) is an important decision making criteria
    - LOS standards should also provide policy guidance

# Ideas

- Set LOS Standards
  - Mandatory for transportation (utilities also)
  - Can include many others (parks, law enforcement, fire)
  - Typically uses population to drive facility needs – although not always the most logical
  - Use facility requirements to drive operating budget needs – more facilities = higher costs



Adobe Acrobat  
Document

Water Utility  
Project List



Adobe Acrobat  
Document

CIP Water  
Utility



Adobe Acrobat  
Document

CIP Project  
Detail



# Asset Management

- Asset inventory
- Inventory prioritization
- Plan for the future
- Required Reserve (ER & R)



Adobe Acrobat  
Document

Fixed Asset  
Worksheet



Adobe Acrobat  
Document

System  
Inventory  
Worksheet



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Asset  
Prioritization  
Worksheet



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Document

Required  
Reserve  
Worksheet



Adobe Acrobat  
Document

Budget  
Worksheet



